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Missouri State Auditor

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REVENUE

Efforts to Enforce Uninsured Motorist Law



Missouri's Uninsured Motorists Cost Insured Motorists Millions Every Year

State law requires all Missouri motorists to be insured. Insured motorists bear the costs of uninsured motorists through the required uninsured motorist coverage included in vehicle insurance policies. The average annual uninsured motorist premium is \$23 per vehicle and costs insured motorists about \$90 million a year. This audit analyzed how well the Department of Revenue ensures motorists obtain and keep insurance and found the state's monitoring system could be more effective. In general, the department's staff tests a sample of vehicles to determine insurance status, but auditors found the current system may drop too many vehicles out of the sample, which leaves these vehicles unmonitored, and possibly uninsured.

Data from insurance companies not always accurate	Department staff obtains data from insurance companies to evaluate vehicle owners insurance status. But auditors found this data is not always accurate and the mistakes unnecessarily cause vehicles to be dropped from the monitoring system. Auditors found some of these data mistakes could easily be resolved. Improved accuracy could increase the number of uninsured motorists monitored by the state. (See page 6)
Citizens are not required to prove insurance when tested by state	When the state sends letters to motorists to check insurance status, the motorist is not required to return proof of insurance, such as a copy of an insurance card. State law only requires the motorist to sign a form saying they are insured and provide a policy number and expiration date. The department's April 2004 response verification testing found 12 percent of the motorists reporting they were insured actually were not. (See page 9)
State law excludes a million registered vehicles from insurance monitoring	Insurance status of commercial, fleet or rental vehicles is not required to be reported to the state. As a result, even though there are 5 million registered vehicles in Missouri, only 3.9 million are reported to the state. (See page 11)
Reinstatement fee for uninsured motorists is lowest among 12 states	Missouri only charges \$20 to reinstate an uninsured motorist after their first offense, which is the lowest among 12 states contacted, including 6 states which charge more than \$100 for a first offense. Legislators dropped reinstatement rates in 1999 apparently to increase reinstatements, but annual reinstatements have instead dropped since the change. (See page 12)

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Honorable Matt Blunt, Governor
and
Members of the General Assembly
and
Trish Vincent, Director
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Uninsured drivers increase insurance premium costs for insured drivers an average of \$23 per vehicle per year resulting in millions of dollars in unnecessary costs for Missouri drivers. The state established a vehicle financial responsibility law to require vehicle owners to maintain financial responsibility for their vehicles. Our objective was to evaluate efforts by the Department of Revenue (DOR) to manage compliance with the law.

DOR's current oversight does not ensure all motorists comply with the vehicle financial responsibility law. A 2000 law allows DOR to sample from a pool of potentially uninsured motorists. We determined improvements are needed in DOR's sampling program because DOR has not ensured insurance companies reported required data, or the accuracy of data, and has not required supporting documentation from citizens answering program testing notices. In addition, DOR has not ensured accurate reporting of suspension rates, adequately enforced suspension laws, or monitored non-compliant motorists. State law also hinders program efforts because it excludes a significant portion of registered vehicles from the program. In addition, for its fiscal year 2006 budget request, DOR did not develop well-supported budget estimates needed to implement the state's full oversight program. We make recommendations to improve DOR's management and oversight of the motor vehicle financial responsibility law.

We conducted our work in accordance with Government Auditing Standards issued by the Comptroller General of the United States. This report was prepared under the direction of Kirk Boyer, Director. Key contributors to this report were Jon Halwes, Tara Shah, Andria Hendricks, Robert Showers and Lori Melton.

A handwritten signature in black ink that reads 'Claire McCaskill'.

Claire McCaskill
State Auditor

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Abbreviations

DOR	Department of Revenue
ESP	Enhanced Sampling Program
MIIDB	Motorist Insurance Identification Database
VIN	Vehicle Identification Number

Introduction

Insured motorists bear the costs of uninsured motorists through the required uninsured motorist coverage included in vehicle insurance policies. Missouri's insurance law¹ requires minimum uninsured motorist coverage of \$25,000 for bodily injury, per person, and \$50,000 for bodily injury, per accident. The average annual uninsured motorist premium is \$23 per vehicle and costs insured motorists about \$90 million a year.² In 2000, the Insurance Research Council³ reported an uninsured motorist rate of 13 percent for Missouri, based on 1995 to 1997 insurance claims data.

To address the uninsured motorists problem, the legislature enacted the Missouri Vehicle Financial Responsibility Law⁴ (uninsured motorist law) in 1987. The law requires owners of Missouri registered vehicles to maintain proof of financial responsibility for liability damage that may arise from ownership, maintenance or use of the vehicle. In 1999, the legislature established the Motorist Insurance Identification Database (MIIDB)⁵ to enhance oversight of the law. This database was to be used to verify compliance with motor vehicle responsibility laws for private passenger motorists. However, the MIIDB Fund⁶ has not been funded in accordance with state law⁷ since the legislature created the MIIDB. In lieu of funding the program, in 2000, the legislature gave the DOR Director authority to establish an uninsured motorist sampling program.⁸

Under the Enhanced Sampling Program (ESP), approximately 215 insurance companies report approximately 3.9 million records to DOR each month. These records, per state regulations,⁹ represent all active private passenger motor vehicle insurance policies as of the last day of each month. Vehicles found to have dropped insurance from one month to the next are monitored to determine if insurance is re-established on the vehicle in the next 2-month

¹ Section 379.203, RSMo 2000

² Auditors computed this cost based on the 3.9 million vehicles reported by insurance companies.

³ The Insurance Research Council was founded in 1977 and is an independent, nonprofit research organization supported by leading property and casualty insurance companies and associations to provide timely and reliable information based on extensive data collection and analyses, examining important public policy matters that affect insurers, customers, and the general public.

⁴ Chapter 303, RSMo 2000

⁵ Sections 303.400 to 303.415, RSMo 2000

⁶ Established by House Bill 1797 in 2000 effective July 1, 2002 to provide funding for the MIIDB program.

⁷ Section 303.406, RSMo 2000

⁸ Section 303.026, RSMo 2000

⁹ 12 CSR 10-25.150 (3)

period. Vehicles with no insurance for at least 60 consecutive days are put into the sampling pool. In July 2003, DOR implemented an edit to match the sampling pool against the department's vehicle General Registration System. The purpose of this match is to remove vehicles not valid to be sampled from potential testing which include vehicles that are not registered or with a junk or salvage title. In the suspect population for vehicles dropping insurance in February 2004, 42,887 vehicles were removed from the final pool as a result of the edit against the registration system. For the six month period ending May 2004, the average monthly pool sample size was about 32,000 records.

DOR randomly selects 300 records each week day¹⁰ from the pool for testing. For each test item, DOR sends the potential uninsured motorist a letter requesting a response if the vehicle has been insured or why the vehicle has not been insured on the sample date. The letter states the person has 15 days to respond. If no response has been received by the department within 30 days of the first notice, DOR sends a second notice. After 33 days (30 days plus a 3-day allowance for mail time), if no response has been provided and/or the individual failed to provide an appropriate explanation about the insurance status of the vehicle, DOR suspends the driver's license. Since the program's inception, an average of approximately 900 drivers have had their licenses suspended each month due to no proof of insurance. DOR tracks license suspension through the Missouri Drivers License system.

To implement an oversight program using the MIIDB, the department may contract with a vendor to monitor compliance with the motor vehicle financial responsibility requirements, except that the program shall not be implemented to notify owners of registered motor vehicles until the department certifies that the accuracy rate of the program exceeds 95 percent in correctly identifying owners of registered motor vehicles as having maintained or failed to maintain financial responsibility. After the department enters into a compliance contract, it is to convene a working group for the purpose of facilitating the implementation of the program. The contractor, using its own computer network, shall develop, deliver and maintain a computer database of all vehicle insurance policies in effect as provided by licensed insurance companies and all registered vehicles and owners from DOR. Once the database is operational, the contractor shall, at least monthly, update the database with information provided by insurers and DOR, and compare then-current motor vehicle registrations against the database. The MIIDB program would test all potential uninsured motorists while ESP only tests a sample.

¹⁰ Approximately 6,000 records a month.

Scope and Methodology

To evaluate DOR's vehicle financial responsibility duties under the law, we reviewed state statutes and regulations. When necessary, we obtained legal opinions from both DOR and our legal counsel to clarify the requirements of the law. We contacted other states (Colorado, Georgia, Illinois, Kansas, Maine, Nebraska, and Utah) to determine whether they had similar uninsured motorist monitoring programs and how those programs operated. We also contacted Colorado, Florida, Georgia, Illinois, Kansas, Maryland, Michigan, New York, North Carolina, Oklahoma, Texas, and Virginia regarding reinstatement fee rates.

We reviewed insurance vehicle policy files which are submitted to the department by insurance companies monthly. We could not verify the completeness of this data due to the statutory exclusion of certain vehicle types which do not have to be reported; however, this limitation did not hinder our ability to conduct our work. We spoke with DOR officials and staff concerning the operations of ESP. We obtained internal reports prepared by the department to document statistics of the program. We analyzed these statistics to evaluate their accuracy and validity.

We reviewed information related to uninsured motorists from various national sources including (1) Insurance Services Office, Inc., (2) Insurance Research Council, and (3) American Association of Motor Vehicle Administrators. We obtained information related to insurance companies and data related to claims and losses from the Missouri Department of Insurance.

We evaluated ESP sample items to determine how DOR processed them. We reviewed records which were bypassed from the ESP sampling pool as a result of the General Registration System edit. We reviewed records from DOR's April 2004 quarterly verification process to understand and evaluate its accuracy. The cumulative effect of errors identified was used to evaluate if potential uninsured motorists were being equitably handled under the program.

We surveyed 103 insurance companies licensed to sell private passenger auto policies, but had not been reporting any policies to DOR, to determine whether they had been actively selling policies and if so, why they had not reported required data to DOR.

We requested comments on a draft of our report from the Director of Revenue, and those comments are reprinted in Appendix I. We have incorporated those comments as appropriate. We performed our work between March and October 2004.

Missouri's Uninsured Motorist Law Can Be More Effectively Managed

Improvements are needed in DOR's efforts to identify and reduce the number of uninsured motorists. Improvements are needed in DOR's ESP because DOR has not ensured insurance companies reported required data or the accuracy of data. Inaccurate data allows vehicles to be excluded from testing under ESP; therefore, all motorists are not handled in an equitable manner with the same chance to be reviewed for compliance with the uninsured motorist law. DOR has not required supporting documentation from citizens answering ESP testing notices. In addition, DOR has not ensured accurate reporting of ESP suspension rates, adequately enforced suspension laws, or monitored non-compliant motorists. State law also hinders program efforts because it excludes a significant portion of registered vehicles from the program. As a result, DOR cannot ensure it has identified the maximum number of uninsured motorists under the current program.

DOR Has Not Ensured Required Data Is Reported or Accurate

Missouri law¹¹ requires all Missouri licensed insurance companies selling private passenger (noncommercial) motor vehicle insurance to report insurance policy information to DOR, unless excused from reporting. However, DOR has not established guidelines on how staff should track and follow up with licensed insurance companies regarding companies' reporting status. For example, we identified and surveyed 103 insurance companies not reporting required policy information to DOR, as of April 2004. Of the 95 responding to our questionnaire, we found 3 should have been reporting. DOR records listed two of the three companies as excused from ESP reporting requirements. We reported all three companies to DOR staff for corrective action. Per a department official, 2 of the 3 companies began reporting in fall 2004 and the other company is supposed to begin reporting in early 2005. The total policies reported for these companies are expected to be less than 100 per month.

DOR has maintained two sets of records documenting companies excused from the reporting process and the reason, according to DOR personnel. Our review disclosed inconsistencies in these records and DOR had not followed up with excused companies to determine whether the companies should continue to be excused from reporting. A program staff person explained the control clerk has primary responsibility for tracking all correspondence with these companies, but he has also maintained a record since they both correspond with the insurance companies. He also said no follow up had occurred with excused companies because he believed it is the responsibility of the insurance companies' compliance section to be keeping up with company legal requirements.

¹¹ Section 303.026.3, RSMo 2000

Data errors are not always corrected or reported to insurance companies

DOR reports data errors including those that can cause a vehicle to be excluded from ESP testing to insurance companies for correction, but does not track if the errors have been corrected. Errors that can cause a vehicle to be excluded from testing include (1) missing a vehicle identification number (VIN), (2) missing the make of the vehicle, (3) reporting an invalid birth date of the owner, and (4) reporting no driver's license number as well as no social security number. We determined 7,151 of 8,382¹² (85 percent) records reported to insurance companies with errors, in the September 2003 policy data, still had the same error 6 months later in the companies' February 2004 data. Of those errors, 79 percent were an error type which would cause the record to be excluded from testing if the vehicle were to drop insurance.

In addition, DOR has not reported records that can be bypassed to insurance companies for correction. DOR conducts edit checks against the initial population of vehicles dropping insurance each month in addition to the data error analysis. The edits include identifying records which have an invalid VIN and/or an invalid make, and those where the policyholder's licensing state is not Missouri and there is no social security number provided. Our analysis showed the February 2004 insurance company reported data had 271,575 records which met one of those error or edit criteria and would be bypassed if the vehicle were to drop insurance.

A DOR official said data validity problems were not a priority because the potential uninsured driver sampling pool was big enough for testing purposes and problems identified would be addressed when time and resources permitted.

Vehicle make error problem could be resolved

Lack of an adequate analysis of the vehicle-make abbreviation edit and coordination with insurance companies has resulted in a significant number of records bypassed from ESP testing. We found 93,344 (34 percent) of 271,575 February 2004 records met one of the bypass record criteria because of errors in vehicle-make abbreviations. DOR developed a master listing of 158 vehicle-make abbreviations in July 2002. If the vehicle-make abbreviation an insurance company submitted does not match one of the established abbreviations, the vehicle, once identified as dropping insurance, would be automatically bypassed from the sampling pool. A DOR staff person reviews the record count of vehicle-make abbreviations bypassed each month and nine abbreviations have been added to the master listing since DOR developed it. A program staff person said the decision to add

¹² There were actually 13,094 errors in the September 2003 data. However, 4,712 were non-recurring errors and would not be necessary to fix for subsequent submissions.

	<p>abbreviations to the master listing has been based on the number of bypassed records (100 or more) with the invalid make abbreviation. However, no review of invalid vehicle-make abbreviations in the overall insurance data submitted by insurance companies has been done by DOR. At least 190 make abbreviations in the February 2004 insurance data met the bypass review criteria to add the abbreviation to the master listing.</p>
<p>DOR software could be used to verify VINs</p>	<p>DOR has not verified the accuracy of insurance company reported VINs. Approximately 12,500 records were dropped from the July 2004 pool¹³ as a result of the insurance records VIN not matching to a VIN in the registration system. Of 25 records tested, which had been dropped from the sampling pool because the General Registration System edit showed the VIN did not match a registration record, 11 had been dropped because of a typographical error in the VIN field in the insurance companies' data. DOR uses licensed software to verify VINs in the registration system for vehicles upon registration, but does not use the software for ESP. A DOR official said VINs have not been verified because it is not statutorily required and it would take additional work for the insurance companies to verify the correct VIN. A DOR official said there would be no additional licensing cost to use the software to check the VINs for ESP purposes, only a slight initial cost to establish the programming.</p>
<p>Insurance companies reporting policies for duplicate VINs</p>	<p>Misreported VINs in the insurance companies' data may allow uninsured vehicles to be dropped from sampling. The vehicle's VIN in the insurance data must match to a DOR registration record or it is dropped from the sampling pool. Of the insurance data submitted for February 2004, there were 14,141 records submitted with duplicate VINs. For an example of this problem, if there were four vehicles reported with the same VIN and the VIN was correct for one of those vehicles, the edit of the General Registration System would drop the other three vehicles from the sampling pool. A DOR official said they have never reviewed the issue of duplicate VINs within the insurance companies' information and therefore have never addressed the issue with the insurance companies.</p>
<p>Registration system match needs to be revised</p>	<p>Records are dropped from the sampling pool if the last name of the policyholder does not match the owner of the vehicle on the registration system; however, the methodology used results in too many records being unnecessarily removed. In February 2004, there were 9,348 records dropped as a result of this system edit. Once a vehicle has been identified as being uninsured for 60 consecutive days, it is matched to the registration system and one criteria of this match is to ensure the last name of the policyholder</p>

¹³ Identified as a vehicle which dropped insurance in March 2004.

matches the owner of the vehicle. The match compares the first 10 characters of the last name in each data file. However, for 7 of 25 items (28 percent) typographical errors in the name field caused the record to be dropped. In addition, 1 of 25 items did not match because the vehicle had been leased and the registration system listed both the lessee and lessor. Once the system match drops these records, DOR staff said they do not evaluate these records any further.

Citizen Responses Are Not Supported

DOR has not required individuals to provide supporting documentation for responses to ESP testing notices. The form citizens submit is a self-certifying verification form in which, upon signing the form, the citizen has declared the information true and accurate and can be held liable under perjury laws, according to DOR officials. They also said there has been no legal requirement for the department to request supporting documentation from the individual. State law¹⁴ states the department shall request the owner to state whether the vehicle was insured on the sample date and the request shall include but not be limited to a statement of the names and addresses of insurers, policy numbers, and expiration date of insurance coverage. Supporting documentation could include copies of insurance cards, bills of sale, storage records, salvage titles, etc. Table 2.1 shows the average response rate by classification for the period of August 2002¹⁵ through March 2004.

Table 2.1: ESP Average Response Rates August 2002 to March 2004

Response classification	Percent
Insured	22
Vehicle sold	32
Not operable	23
Stored	2
Other	14
Unacceptable response	7

Source: DOR's system reports.

In 2002, to evaluate responses, DOR began performing a quarterly verification check on a sample of the citizens reporting they had insurance on the sample date. The department's verification of April 2004 test items showed 12 percent of the citizens claiming to be insured were not.

¹⁴ Section 303.026.8, RSMo 2000

¹⁵ Although ESP started January 2002, DOR did not break the responses into classifications until August 2002.

Weaknesses existed in verification of insured responses

Until June 2004, the sample of ESP responses tested had not been selected in an unbiased manner, formal verification procedures had not been established and no listing of the sample items verified had been maintained. On a quarterly basis, ESP staff is to review 10 percent of ESP responses where vehicle owners state they have insurance by contacting the insurance company and verifying the policy information provided. The staff said they primarily selected items from insurance companies they knew they could get responses from easily, but followed no particular selection methodology because one had not been established. All verification information is microfilmed, but there was no listing maintained of the verification items. The only way to identify verified items was to review the microfilmed documentation. DOR established formal verification procedures and tracking of test items effective June 2004.

Correctly verified test items not further analyzed

Correctly reported ESP responses where the vehicle owner had insurance on the sample date have not been further analyzed by DOR for possible insurance company reporting problems. In our verification test of 50 ESP test items, we determined 3 of 6 responses where the drivers claimed they were insured, related to one insurance company. A representative of the company said, after doing some research on these transactions, a change in how policies have been written for households with multiple vehicles created a problem in how the system program pulled records to be submitted to DOR. Therefore, these records and others had not been reported to DOR. The representative stated this problem had existed since the company started reporting to DOR in September 2001. In July 2004, the company reported 59,287 more vehicle records to DOR than in June 2004 (a 7 percent increase), the month we spoke with the representative about this issue.

Response classification not consistent

DOR's process to classify citizens' responses to ESP notices has allowed inconsistent classification of responses and reduced the benefit of any statistical data prepared for the program. Staff can post a citizen's response to six classifications; (1) vehicle properly insured, (2) vehicle sold, (3) vehicle not operational, (4) vehicle stored or not in use, (5) other acceptable compliance, and (6) unacceptable response. Staff has been provided manuals of what responses may be recorded under these classifications. However, some of the responses overlap classifications. For example, the manual states a vehicle which is salvaged is to be classified as "other," a total/wrecked car is to be classified as "not operable," and a total/ wrecked car sold to a salvage yard or insurance company is to be classified as "sold." This problem allows for inconsistency since the same type response could be classified differently depending on who did the classification or interpretation of the manual. As a result of this classification problem, 14 percent of responses had been classified as "other" as shown in Table 2.1. A DOR official agreed too many cases are being classified as "other."

DOR Has Not Accurately Reported ESP Suspension Rates, Adequately Enforced Suspension Laws, or Monitored Non-compliant Motorists

DOR's reported ESP suspension rate has not accurately portrayed program results. For example, the February 2004 suspension statistical summary showed the January 2002 suspension rate at 10 percent. However, DOR actually achieved a suspension rate of 6 percent for January 2002 test items. Program staff base reported suspension rates on historical statistics taken as of the 63rd day from the initial notice being sent out. DOR does not update the rate for changes which occur after it is calculated; therefore, it does not reflect the actual suspensions and compliances which have occurred. DOR officials said it is the department's philosophy to freeze/lock the monthly numbers rather than updating them or allowing them to "float."

DOR also has not suspended vehicle registrations when owners have not complied with the vehicle financial responsibility law, as statutorily required. State law¹⁶ states failure to provide proof of insurance on the verification date, when being sampled for ESP, shall result in the suspension of the vehicle's registration and the owner's or operator's driving privilege. DOR officials and legal counsel said registration suspensions have not been enforced for uninsured drivers identified by the ESP process because of the incompatibility of the driver's license system and the registration system.

We also found DOR has not adequately monitored individuals found to be non-compliant with insurance laws. DOR monitors their proof of insurance for three years after reinstatement, but does not use the monthly data received from insurance companies as part of the process. Within 20 days from each individual's policy expiration, the individual is to submit proof for the next policy period. If the individual drops insurance on the vehicle during the policy period, it could go undetected unless the person was tested again as part of the ESP sampling pool. A DOR official said the department had not considered using the reported insurance data for this purpose.

State Law Excludes a Significant Number of Registered Vehicles and Has Established Low Reinstatement Fees

There are approximately 5 million registered vehicles in Missouri but only approximately 3.9 million insured vehicles are reported to DOR monthly by the insurance companies. Commercial, fleet, and rental vehicles are not required by statute to be reported to DOR.¹⁷ These vehicles are not specifically identified in DOR's registration system. The discretion is left up to the insurance companies to determine which vehicles do not have to be reported because of these classifications. DOR cannot reconcile the registration system with the insurance data to determine the completeness of the insurance data received. Discussion with a former legislative official

¹⁶ Section 303.026.8, RSMo 2000

¹⁷ Section 303.026.3 (1), RSMo 2000

who supported this legislation did not allow us to determine a reason why commercial, fleet and rental vehicles had been excluded from reporting.

Reinstatement fees low compared to other states

The state's \$20 reinstatement fee for the first uninsured motorist offense is the lowest compared to 12 other states reviewed. The fees ranged from \$25 in Michigan and New York to \$150 in Florida with 6 of the 12 states having fees that exceeded \$100. A legislative change in 1999, effective January 2000, reduced the state's reinstatement fees for mandatory insurance suspensions from \$200, \$400, and \$800 for the 1st, 2nd, and subsequent offenses to \$20, \$200, and \$400, respectively. DOR officials believe the legislature made the change to increase the number of motorists reinstating licenses. Prior to the change, the annual reinstatement rate for suspended drivers related to uninsured motorist offenses ranged from 76 percent to 83 percent. After the change, the annual reinstatement rate has been no higher than 66 percent.

Conclusions

Effective procedures have not been developed for tracking companies required or not required to report insurance policies for ESP. In addition, insurance company reported data is not sufficiently evaluated for accuracy, errors identified are not always reported to the companies, and errors reported are not tracked for correction. As a result, all potential uninsured motorists are not evaluated in an equitable manner. Improved accuracy of insurance company reported data would increase the likelihood motorists tested under ESP are actually uninsured and more uninsured motorists would have the opportunity to be selected for compliance testing.

Program respondents are not required to provide documentation supporting responses which increases the risk of inaccurate information being reported. Lack of formal procedures to test ESP responses contributed to DOR staff using a biased selection process. Effective June 2004 this problem was fixed. Insurance company data is not evaluated for accuracy and necessary corrections when respondents correctly reported they were properly insured resulting in insured motorists being unnecessarily selected for testing under ESP. DOR staff has not consistently classified motorist responses reducing the benefit of response statistical data.

DOR's method of computing the ESP suspension rate has not accurately portrayed program results. DOR does not suspend vehicle registrations as required by state law for non-compliant motorists. Matching reinstated motorists against reported insurance company records would improve identification of motorists dropping insurance during the 3-year monitoring period.

The exclusion of commercial, fleet and rental vehicles from compliance with the motor vehicle responsibility law hinders DOR's ability to ensure insurance companies report all necessary records. The state's \$20 reinstatement fee for a first offense of not having a vehicle insured is the lowest compared to 12 other states reviewed. The legislature reduced the fee effective January 2000 with the apparent intent of increasing reinstatements; however, the lower fees have not created the intended result.

Recommendations

We recommend the Director of DOR:

- 2.1 Develop formal guidelines to track insurance companies registered to sell private passenger insurance policies in Missouri that are not reporting any policies sold. In addition, periodically follow-up with these companies to ensure they still are not selling such policies.
- 2.2 Develop a process to report all records with errors, which would cause a record to be dropped from possible testing, to the insurance companies and monitor those records to ensure insurance companies are fixing them. Improve the accuracy of insurance company reported data by:
 - Using the record count of invalid makes in the overall population of insurance data when making decisions to add vehicle makes to the accepted listing.
 - Using the VIN verification software currently used on the registration system to validate the VINs on insurance company submitted records.
 - Performing an edit check of duplicate reported VINs on insurance companies' records.
 - Modifying the criteria for the policyholder name match edit.
 - Evaluating data accuracy when program respondents report they were insured on the sample date.
- 2.3 Require motorists to provide documentation supporting responses made on compliance verification forms.
- 2.4 Clarify ESP response classifications to eliminate inconsistent classification by DOR staff.
- 2.5 Implement a more accurate computation for the program's suspension rate.
- 2.6 Suspend a vehicle's registration for vehicles of motorists found to be uninsured.

2.7 Use reported insurance data as a tool in monitoring citizen's insurance compliance during the 3-year monitoring period when they have been suspended through the program.

We recommend the General Assembly:

2.8 Revise compliance under the motor vehicle responsibility law to include commercial, fleet, and rental vehicles.

2.9 Evaluate increasing the 1st offense reinstatement fee.

Agency Comments

The agency generally agreed with the recommendations. DOR's comments and our evaluation are included in Appendix I.

DOR Has Not Adequately Justified Its Planned MIIDB Budget Request

For its fiscal year 2006 budget request, DOR did not develop well-supported budget estimates needed to operate the MIIDB. As a result, program costs may not be realistic and it is less likely the General Assembly will approve the request.

MIIDB Budget Request Not Supported

DOR developed a fiscal year 2006 line item funding request of \$8.2 million for establishing the MIIDB program. However, DOR personnel did not conduct an in-depth cost analysis to support estimated costs for contracted support and other costs. Instead, a DOR official told us the department based the fiscal year 2006 request on the fiscal year 2001 MIIDB program request with adjustments for minor changes.

The MIIDB legislation gives DOR the authority to hire an outside contractor to monitor compliance with motor vehicle financial responsibility laws. DOR officials stated department staff does not have the experience or the expertise to program nor manage the MIIDB; therefore, they plan on outsourcing the project.

Table 3.1 shows a breakdown of the \$8.2 million budget request:

Table 3.1: Fiscal Year 2006 MIIDB Budget Request

Expenditure area	In-house costs	Outside contractor	Amount
		costs	
Start up cost (one-time)	618,000	3,000,000	3,618,000
On-going operational	419,000	2,600,000	3,019,000
Salaries (62 employees)	1,542,000	0	1,542,000
Total	2,579,000	5,600,000	8,179,000

Source: DOR 2006 Budget Request.

DOR personnel over estimated the \$1.5 million for 62 employees because the estimate should have been based only on 50 new positions since 12 employees had already been assigned to ESP and are in DOR's core budget. The request also included \$2.6 million in annual costs for continued contractor assistance¹⁸ and associated costs in support of the program. However, other states have not had to spend that much on contractor support. For example, Colorado¹⁹ spends about \$1.2 million annually for contracted vehicle insurance database work, according to a Colorado motor

¹⁸ Includes obtaining information from the insurance companies and vehicle registration information from the department.

¹⁹ Colorado had 4.4 million registered vehicles, including commercial vehicles. That state's outside contractor maintains the database, administers the notices, and posts suspensions to the vehicle registration records.

vehicle division manager. That contractor's work responsibilities were more extensive than what DOR plans for Missouri's potential contractor based on what a DOR official told us they planned to outsource to the contractor versus the duties Colorado officials said their contractor handled.

DOR has not determined operating costs for the ESP program

DOR officials have not determined the cost of ESP. Based on our analysis of DOR costs, we determined the department spent approximately \$575,000 in fiscal year 2004 to perform ESP testing. We also estimated the cost²⁰ would be \$2.5 million for testing all suspected uninsured motorists, based on DOR's 32,000 average monthly sample pool total. Under the MIIDB program established by the legislature, DOR is to review all suspected uninsured vehicles rather than just a sample population.

Funding mechanism for MIIDB

According to Office of Administration budget and planning personnel, their staff analysis showed the fiscal year 2003 transfer to the MIIDB Fund would have been approximately \$3.1 million. This estimate is based on a funding mechanism established for the MIIDB by the legislature which became effective July 1, 2002. The mechanism allowed 6 percent of the net general revenue portion of insurance premium tax collections to go to the fund. DOR collected the 6 percent tax and placed the funds in the state's General Revenue Fund. However, the Office of Administration did not allow DOR to request a transfer of monies to the MIIDB Fund because of budget restrictions. The Office of Administration's former budget director said for fiscal years 2001 to 2005, agencies were directed to request only mandatory budget items from the General Revenue Fund and funding needed to implement this legislation had not been considered mandatory. The former budget director said for fiscal year 2006, departments have been allowed to request funding for high priority items.

Conclusions

DOR's fiscal year 2006 MIIDB program funding request does not provide a well-supported assessment of probable program costs leaving it questionable whether the legislature will approve the request. Established MIIDB funding has not been appropriated due to budget restrictions, but those restrictions have been relaxed.

²⁰ This cost does not include the one-time, up front cost for purchasing equipment and leasing office space.

Recommendation

We recommend the Director of DOR:

- 3.1 Evaluate the most cost-effective way to implement MIIDB and request funding based on the results of that evaluation.

Agency Comments

The agency generally agreed with the recommendation. DOR's comments and our evaluation are included in Appendix I.

Agency Comments and Our Evaluation

MATT BLUNT
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January 31, 2005

The Honorable Claire McCaskill
Auditor of the State of Missouri
State Capitol Building, Room 224
Jefferson City, MO 65101

Dear Auditor McCaskill:

Please find below the Department of Revenue's (DOR) response to your review of the Missouri Financial Responsibility Law.

As a starting point, I direct your attention to Section 303.026.3, RSMo 2000. It provides in key part: "[T]he director may utilize a variety of sampling techniques including but not limited to random samples of registrations subject to this section, uniform traffic tickets, insurance information provided to the director at the time of motor vehicle registration, and persons who during the preceding year have received a disposition of court-ordered supervision or suspension." It appears that there may be an assumption in the audit that random sampling is the *only* permissible sampling technique. If so, we respectfully disagree that the statute so limits the director's discretion to "utilize a variety of sampling techniques."

Recommendation 2.1 – We recommend the Director of DOR develop formal guidelines to track insurance companies registered to sell private passenger insurance policies in Missouri that are not reporting any policies sold. In addition, periodically follow-up with these companies to ensure they still are not selling such policies.

DOR Response - Department management agrees that formal guidelines would improve data completeness and accuracy. Guidelines establishing a single point for tracking insurance company reporting status will be implemented. Additionally, an annual letter will be sent to all insurance companies licensed to sell private passenger insurance policies in Missouri to request updated information. The anticipated implementation date is Fiscal Year 2006.

Recommendation 2.2 – We recommend the Director of DOR develop a process to report all records with errors, which would cause a record to be dropped from possible testing, to the insurance companies and monitor those records to ensure insurance companies are fixing them. Improve the accuracy of insurance company reported data by:

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- **Using the record count of invalid makes in the overall population of insurance data when making decisions to add vehicle makes to the accepted listing.**
- **Using the VIN verification software currently used on the registration system to validate the VINs on insurance company submitted records.**
- **Performing an edit check of duplicate reported VINs on insurance companies' records.**
- **Modifying the criteria for the policyholder name match edit.**
- **Evaluating data accuracy when program respondents report they were insured on the sample date.**

DOR Response: Department management agrees that errors should be reported to the insurance companies and tools should be implemented to ensure errors are resolved. A cost benefit analysis will be performed in Fiscal Year 2006 to determine the feasibility of improved monitoring tools.

Recommendation 2.3 – We recommend the Director of DOR require motorists to provide documentation supporting responses made on compliance verification forms.

DOR Response: Department management agrees to modify existing procedures by requiring citizens to submit a copy of their valid insurance identification card when contacted to verify proof of insurance. An anticipated implementation date cannot be provided due to computer programming modifications being required prior to making procedural changes.

Recommendation 2.4 – We recommend the Director of DOR clarify ESP response classifications to eliminate inconsistent classification by DOR staff.

DOR Response: Procedures were implemented in June 2004 addressing the State Auditor's recommendations.

Recommendation 2.5 – We recommend the Director of DOR implement a more accurate computation for the program's suspension rate.

DOR Response: Department management feels the current mechanism provides accurate information for internal reporting purposes. However, as an enhancement, the current reporting structure will be supplemented to include ongoing, updated information.

Recommendation 2.6 – We recommend the Director of DOR suspend a vehicle's registration for vehicles of motorists found to be uninsured.

DOR Response: Department management agrees that current statute provides that the department director may suspend the registration of an owner's motor vehicle if the owner or operator is determined to be uninsured. However, current system limitations prevent the cost effective suspension of vehicle registrations and therefore, an implementation date cannot be provided.

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Recommendation 2.7 – We recommend the Director of DOR use reported insurance data as a tool in monitoring citizen’s insurance compliance during the 3-year monitoring period when they have been suspended through the program.

DOR Response: Department management agrees that previously suspended uninsured motorists could be more effectively monitored if insurance cancellations were electronically compiled and tracked. A cost benefit analysis will be conducted in Fiscal Year 2006 to determine the feasibility of this recommendation.

Recommendation 3.1 – We recommend the Director of DOR evaluate the most cost-effective way to implement MIIDB and request funding based on the results of that evaluation.

DOR Response: Department management agrees that an uninsured motorist testing program should be operated in the most cost effective manner possible. The department will continue to evaluate uninsured motorist testing options to identify the most cost effective method in accordance with statutory requirements.

Please direct any questions you may have regarding the responses above to Kim Lauer, Internal Audit Administrator, at 751-8255 or Kim.Lauer@dor.mo.gov.

Sincerely,



Trish Vincent

TV:KL

c: Lowell Pearson
Kim Lauer

Appendix I
Agency Comments and Our Evaluation

Our Evaluation

This report does not assume that random sampling is the only or best method to enforce financial responsibility requirements for Missouri motorists. Absent a comprehensive compliance program, this report seeks to help ensure any uninsured Missouri motorist has an equal opportunity to be selected for enforcement action, and that more effective enforcement methods are implemented. Under a sampling enforcement process currently used by DOR, this report illustrates the importance of an accurate and complete potential uninsured motorist population, or pool; beginning with more accurate insurance company reported data.